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Cooperative Stock Purchase Program



United States
Department of
Agriculture

Rural
Development

Rural Business-
Cooperative
Service

GPO
Depository
Program



Why a Cooperative?

Cooperatives have long provided an effective business structure for helping rural Americans process and market their products and to acquire needed goods and services. As part of its mission to create new opportunities for rural America, USDA Rural Development is striving to stimulate the creation of new cooperatives that can help boost the rural economy in the 21st century.

Agricultural cooperatives will likely grow in importance as more farmers and ranchers seek to transform their commodities into value-added products. Co-ops can also help bring stability to agricultural markets as Federal farm income support programs wind down. USDA Rural Development will continue to support the creation of cooperatives through a number of services, one of which is the Business and Industry (B&I) Guaranteed Loan Program. The B&I program works with the private sector to boost the Nation's rural economy by supporting businesses that produce or preserve rural jobs. Borrowers first seek financing from a local lender in their area, and the lender in turn seeks a guarantee from USDA. This program was expanded by the 1996 Farm Bill to provide loans for producers seeking to join new cooperatives that produce value-added goods.

Eligible Loan Purpose

Family farmers can use B&I loan guarantees to help pay for stock in a start-up cooperative that processes their agricultural commodity into a value-added product. The co-op must be a new cooperative venture, not an expansion or diversification of an existing co-op. Further, the producer must be a family-sized farmer, as defined by the USDA Farm Service Agency.

The cooperative entity must make a written request to its USDA Rural Development State Office for a determination of eligibility prior to approval of any cooperative stock loans to individual producers. Applications for a Cooperative Stock Purchase Program loan are processed through an eligible lender (bank, savings and loan, Farm Credit System, etc.).

Feasibility Studies

A feasibility study of the cooperative entity is required. While a feasibility study on the individual producer will not be needed, the lender is required to provide (as part of an application) a complete written analysis covering, among other things, repayment ability of the producer.

Environmental Concerns

A single cooperative stock share loan cannot be linked with a specific action which significantly impacts the environment. However, the cooperative is strongly encouraged to complete an environmental analysis to evaluate the potential environmental impacts of the proposal; aid in the selection of a site; and ensure compliance with applicable Federal, State, and local environmental requirements.

Loan Terms

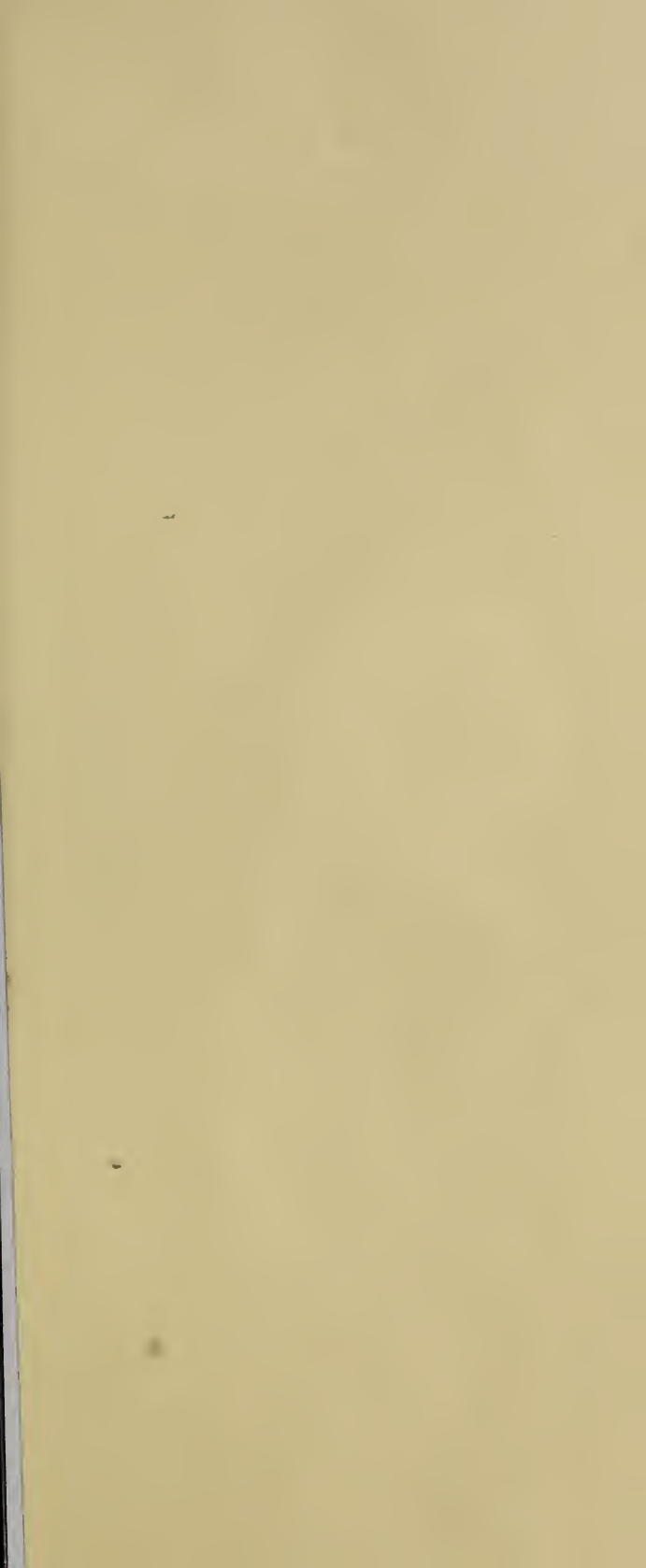
- The maximum guarantee is 80 percent.
- The maximum loan amount is \$400,000.
- Loans have a maximum term of 7 years.
- The interest rate for the guaranteed loan will be negotiated between the lender and the producer and may be either fixed or variable.
- The guarantee fee is 2 percent of the guaranteed portion of the loan. This is a one-time fee paid by the lender. The fee can be passed on to the producer.
- There is no test for availability of credit from commercial creditors.
- Normally, personal and corporate guarantees are required.

Tangible Balance Sheet Equity Minimums

Since farm producers who come to USDA for a guarantee will already have been established as an existing business (i.e., having operated for more than 1 year) by the time of the request, only a 10 percent tangible balance sheet equity is required. The tangible balance sheet equity must be determined in accordance with Generally Accepted Accounting Principles (GAAP). Financial statements do not need to be done by an accountant, but the presentation of the financial statements will be formatted and based upon GAAP.

Security

The stock acquired with loan funds and personal guarantees of the borrower will ordinarily be taken, but the lender will determine the sufficiency of collateral in accordance with its normal lending practices.



Appraisals

Appraisals are not required on the cooperative stock shares. If additional collateral is offered as security, it will need to be assessed to determine value and discounted appropriately.

Producers need to provide:

- financial records for the most recent 3 years;
- a current (not more than 90 days old) balance sheet and profit and loss statement;
- pro-forma balance sheet at start-up, prepared in accordance with GAAP; and
- projected balance sheets, income and expense statements, and cash flow statements for the next 2 years, including the list of assumptions upon which the projections are based, also prepared in accordance with GAAP.

At a minimum, annual financial statements prepared in accordance with GAAP are required. We will accept the lender's certification that the borrower's financial statements have been prepared accordingly.

For More Information

For more information, contact the USDA Rural Development State Office or any Rural Development field office:

Or call the Rural Business-Cooperative Service (RBS) at (202) 690-4730. You may also visit our home page on the Internet:
<http://www.rurdev.usda.gov>

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